Long Distance Company Commission Savings (since 1993)

Y	C1	C2	M	Months	Q	TC1	TC2	Savings
1997	16.20	51.02	$0.40	12	2,223,000	$172,860,480	$544,403,808	$371,543,328
1996	19.13	51.02	$0.40	12	2,111,000	$193,840,464	$516,975,456	$323,134,992
1995	25.21	51.02	$0.40	12	2,056,000	$248,792,448	$503,506,176	$254,713,728
1994	38.75	51.02	$0.40	12	2,091,000	$388,926,000	$512,077,536	$123,151,536
1993	51.02	51.02	$0.40	12	2,032,000	$497,628,672	$497,628,672	$0

Key
Y = Year
C1 = Average number of 0 + Calls made from Payphones each month
C2 = Estimated average number of 0+ calls, if 1992 law had not passed
M = Average Commission PIC pays to PSP for each 0 + Call,
based on FCC imposed compensation of $0.40 per call
Months = # of Months in a Year
Q = Number of Payphones installed in the U.S. in the given year
TC1 = Total yearly Commissions PIC pays PSP for 0 + Calls
TC2 = Total yearly commissions paid if 1992 law had not passed
Savings = savings in compensation between baseline (TC2) and actual commissions (TC1)

Source: Frost Sullivan

FROST & SULLIVAN

2525 Charleston Road
Mountain View, California 94043
Tel 415.961.9000
Fax 415.961.5042

To: Jim Hawkins, Co-Chair of the Payphone Communications Alliance
Vince Sandusky, Co-Chair of the Payphone Communications Alliance
From: Brian Cotton
Date: February 26, 1998
Subject: Impact of AT&T rate increases for payphone compensation

Dear Mr. Hawkins and Mr. Sandusky:

This memo is intended to present our analyses of the quantitative impact on AT&T of their rate increases to cover payphone compensation for dial-around and toll free calls. *Our conculsion is that the rate increases allowed AT&T to gain approximately $641.6 million in 1997. As you will see from this document, the rate increases were in effect for only part of the year in 1997, and whereas they were relatively significant, the figures for 1998 are likely to be even higher.*

The methods by which we performed these analyses involved taking the public statements made by AT&T on January 21, 1998 about their rate increases, estimating AT&T's share of that market, and multiplying them to arrive at AT&T's annual expected revenue from that market prior to any of the announced rate increases. Next, we multiplied the rate increase by the revenue to arrive at an estimate of the annual added revenues from the rate increases. We then divided this annualized figure by 12 months to arrive at an average monthly figure for these added revenues, and then multiplied this monthly figure by the number of months in 1997 which were subject to the rate increases. We then added this figure to the expected revenue figure prior to the rate increases to arrive at the total 1997 revenue. The final calculation involved subtracting the pre-rate increase revenue from the total post-rate increase revenue to give us the quantitative impact of the rate increases on each service.

I will explain the impact of each rate increase, as generated by our analyses, below.

The first analysis, entitled "Total Toll Free Market," quantifies the gain AT&T would realize in 1997 from a 3 percent increase in toll free rates to cover its payphone liability, effective February 27, 1997. This figure, highlighted in the last column of the Total Toll Free section, shows that AT&T would gain $160.6 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for toll free including both pre- and post-increase revenues.

The second analysis, entitled "Business Calling Cards," quantifies the gain AT&T would realize in 1997 from a $0.15 per call increase in business calling card rates to cover its payphone liability, effective February 27, 1997. This figure, highlighted in the last column of the Business Card section, shows that AT&T would gain $46.7 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for business calling card calls including both pre- and post-increase revenues.

The third analysis, entitled "Business International," quantifies the gain AT&T would realize in 1997 from a 2 percent increase in business international rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the Business International section, shows that AT&T would gain $57.0 million from the rate increase in May through December 1997. The column before this shows the total AT&T revenues in 1997 for business international including both pre- and post-increase revenues.

The fourth analysis, entitled "Inbound Interstate Toll Free," quantifies the gain AT&T would realize in 1997 from a 7 percent increase in interstate toll free rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the Inbound Interstate Toll Free section, shows that AT&T would gain $239.8 million from the rate increase in May through December 1997. The column before this shows the total AT&T revenues in 1997 for inbound interstate toll free including both pre- and post-increase revenues.

The final analysis, entitled "U.S. Business Interstate Outbound Long Distance Service," quantifies the gain AT&T would realize in 1997 from a 2 percent increase in toll free rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the U.S. Business Interstate Outbound Long Distance Service section, shows that AT&T would gain $137.5 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for business interstate outbound long distance including both pre- and post-increase revenues.

Please note that we found AT&T's statements to be unclear for the final analysis, in that one could read the statement "...prices for business international and interstate outbound services by 2 percent (point #5 of the release)," in two ways. The increases could be construed to apply to all interstate outbound services (business plus residential), or it could be read to apply to only business outbound interstate services. We chose a conservative approach by focusing the analysis on only the business outbound interstate interpretation. Including the residential segment with this analysis would increase AT&T's gains significantly.

Please do not hesitate to call me on my direct line (650-237-4315) if you have any questions about this material.

Sincerely,

Brian Cotton

Brian Cotton

Impact of ATT rate increases for payphone compensation (1997)

Total Toll Free Market (1)

Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	added revenues	Ave. monthly revenues (post increase)	Total AT&T toll free revenues	1997 Gains
1997	$ 12,350,000,000	0.52	$ 6,422,000,000	0.03	$ 192,660,000	$ 16,055,000	$ 6,582,550,000	$ 160,550,000

Business Calling Cards (2)

Year	Market Size (calls)	AT&T Share (est)	AT&T business calling card calls	Rate increase (per call)	ave. monthly revenues (due to increase)	total revenue increase (after rate increase)	Total market revenues	AT&T business card revenues (post-increase)
1997	868,500,000	0.43	373,455,000	$ 0.15	$ 4,668,188	$ 46,681,875	$ 5,060,000,000	$ 2,175,800,000
							Total AT&T business calling card revenues	1997 Gains
							$ 2,222,481,875	$ 46,681,875

Business International (3)

Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	added revenues	Ave. monthly revenue increase (after rate increase)	Total AT&T business international revenues	1997 Gains
1997	$ 8,730,000,000.00	0.49	$ 4,277,700,000	0.02	$ 85,554,000	$ 7,129,500	$ 4,334,736,000	$ 57,036,000

Inbound Interstate toll-free (4)

Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	revenue increase	Ave monthly increase	Total AT&T inbound interstate toll free revenues	1997 Gains
1997	$ 9,880,000,000	0.52	$ 5,137,600,000	0.07	$ 359,632,000	$ 29,969,333	$ 5,377,354,667	$ 239,754,667

U.S. Business Interstate Outbound Long Distance Services (5)

Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	AT&T rev increase	Ave monthly increase	Total business interstate outbound revenues	1997 Gains
1997	$ 23,178,720,000	0.445	$ 10,314,530,400	0.02	$ 206,290,608	$ 17,190,884	$ 10,452,057,472	$ 137,527,072

Total AT&T Gains in 1997

$ 641,549,614

Notes

(1) The AT&T rate increase was announced on 27 Feb 97. 10 months are assumed to be affected.

(2) The AT&T rate increase was announced on 27 Feb 97
Market sizing: A business card call is equivalent to one 5 minute call

(3) Business international rates increases effective 1 May 97

(4) Inbound interstate toll free revenues are assumed to be 80 percent of the total toll free market revenues in 1997.
Increases effective 1 May 97

(5) Rate increases effective 1 May 97
Business interstate outbound long distance services account for approximately 43% of total market
AT&T's market share for business long distance services is less than residential share
[illegible]

EXHIBIT 3 TO EXCERPTS FROM COLORADO PAYPHONE ASSOCIATION PETITION FOR RECONSIDERATION

2101 L Street NW • Washington, DC 20037-1526
Tel (202) 785-9700 • Fax (202) 887-0689

Writer's Direct Dial: (202) 828-2226

March 16, 1998

VIA COURIER

EX PARTE PRESENTATION

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: CC Docket No. 96-128

Dear Ms. Salas:

On March 13, 1998, the undersigned counsel and co-counsel of this law firm, on behalf of the American Public Communications Council, Inc. ("APCC"), met with Commissioner Gloria Tristani, Paul Gallant, Legal Advisor to Commissioner Tristani, and Greg Lipscomb and Jennifer Myers of the of the Common Carrier Bureau's Enforcement Division.

During the meeting, we presented an historical overview of payphone regulation to date. Our discussions were limited to matters related to payphone regulation from an historical perspective, and the information contained in the presentation materials enclosed herewith.

If you desire any further information, please contact the undersigned.

Sincerely yours,

Albert Kramer

Albert H. Kramer

AHK/rw
Enclosure
cc: Gloria Tristani
Paul Gallant
Greg Lipscomb
Jennifer Myers

1177 Avenue of the Americas • 41st Floor • New York, New York 10036-2714
Tel (212) 835-1400 • Fax (212) 997-9880
http://www.dsmo.com

A History of Payphone Compensation

Presented by the American Public Communications Council

Annual Cost of Payphone Compensation for Dial-Around Calls

- Using the Commission's conservative, somewhat out-of-date average of 131 dial-around calls per payphone per month multiplied by 28.4¢ per call, yields \$37.20 per payphone per month

- \$37.20 multiplied by the 12 months of the year is \$446.45

- For the approximately 2.223 million payphones nationwide, annual compensation is approximately \$992 million (\$446.45 x 2,223,000 payphones)

- Using 152 dial-around calls per payphone per month, as proposed by APCC, the total cost of annual compensation would be approximately \$1.15 billion

Corresponds with Slides 36 - 37

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM
(continued)

Recovery Method #1: **Raise Rates**

- The IXCs, most notably AT&T, MCI, and Sprint have raised their rates for subscriber 800 and some interstate and international services
- These rate increases were, as acknowledged by the carriers themselves, a specific response to the Payphone Orders
- Calculations performed by Frost & Sullivan, based on AT&T public statements, valued these rate increases, for AT&T alone, at $642 million in just 1997 (annualized to about $900 million)

Recovery Method #2: **Pay Less in Access Charges**

- The Commission's rules terminated all subsidies for payphone operations, which has amounted to a payphone-specific reduction in access charges paid by IXCs to LECs of over $250 million
  - This reduction is distinct from reductions associated with CC Docket No. 96-262
- Additional subsidies were terminated at the state level
- The IXCs have not passed on any portion of these significant intrastate and interstate access charge cost reductions on to their customers, which is contrary to the pledge they made in the Commission's access charge reform proceeding

Corresponds with Slides 38 - 39

Recovery Method #3: **Savings in Commissions Due to Migrating 0+ Traffic to Access Code Calls**

- Pursuant to individual contracts, IXCs pay commissions to PSPs for 0+ calls
  - The Commission estimated in 1992 that AT&T's average commission payment on a 0+ call was about 40¢
- IXCs have trained their customers to dial an access number to reach the carrier (such as 1-800-CALL-ATT), even when the payphone is already presubscribed to the same carrier
  - Dialing-around by callers allows the carrier to bypass 0+ commission payments, which reduces its overall costs for payphone-originated calls
- In 1993, according to APCC data, the average IPP *originated 51 commissionable 0+ calls*
- By 1997, the same data show that this IPP average had *fallen to 16 commissionable 0+ calls!*
  - This *69 % reduction in commissionable 0+ calls* has dramatically lowered an IXC's costs -- directly out of the pockets of the PSPs
  - The monthly 35 call shortfall at each payphone translates into *annual 0+ commission savings for the IXCs of approximately $372 million*[1]
- Once again, the IXCs have not passed on these savings to their customers

Corresponds with Slides 40 - 41

[1] 35 calls per month x 40¢ per call x 12 months of the year x 2.223 million payphones = approximately $372 million

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM?
(continued)

<u>**Recovery Method #4:**</u> <u>**Impose Per-Call Surcharges on Callers and Subscribers**</u>

- Almost all of the IXCs place a surcharge on callers who originate calls from payphones and on 800 subscribers who receive such calls

- The amount of these surcharges often exceeds the 28.4¢ per call default rate established by the Commission

  - At present, IXCs can track all dial-around calls (with "27" ANI coding digits) from 60% of payphones

  - IXCs can also track all access code calls (which are roughly one third of all dial-around calls) from the remaining 40% of the payphones

  - Thus, IXCs can currently track about 70% of all dial-around calls and are passing on the per-call compensation costs for these calls directly to the end users in the form of a surcharge

  - Once the ANI coding digit waivers expire, IXCs should be able to track all, or virtually all, dial-around calls and will impose a surcharge for them

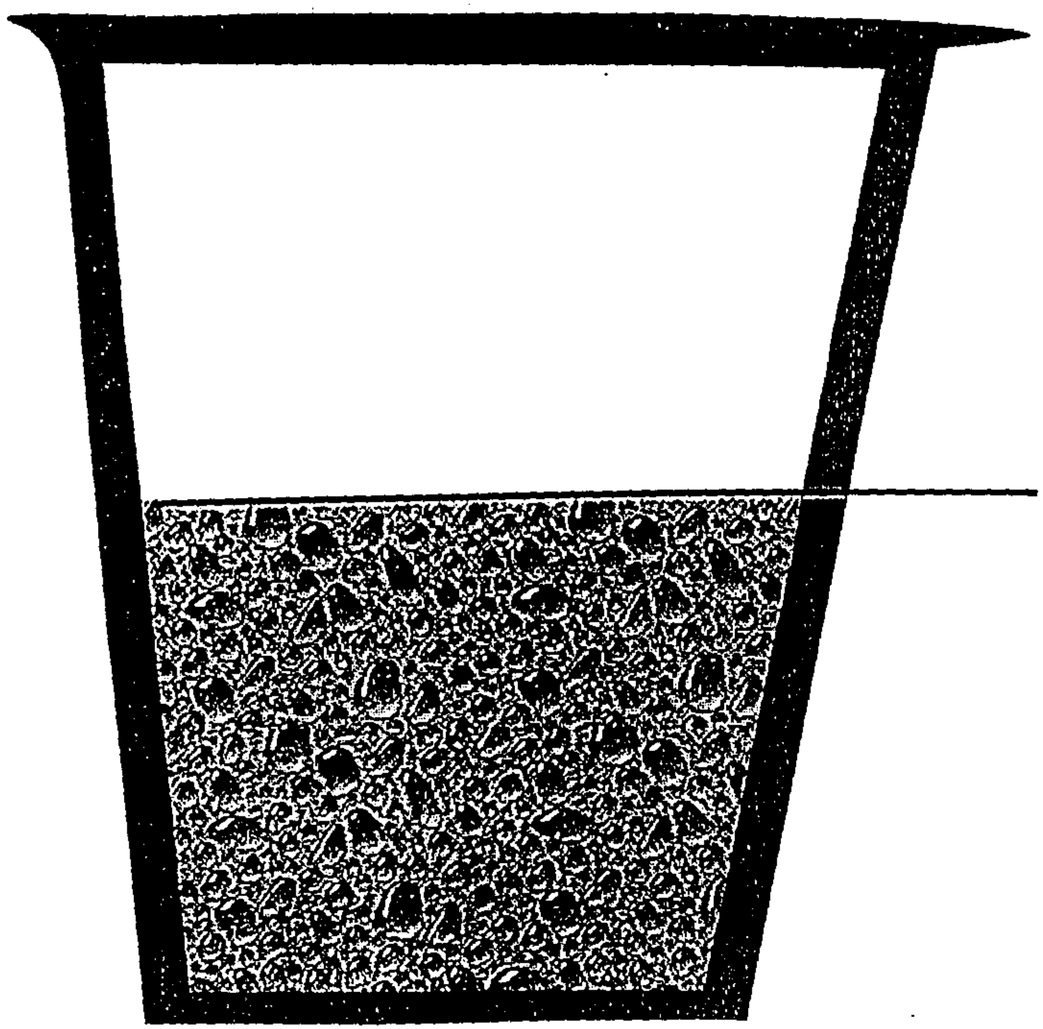
Quadruple Dipping?

- *These four strategies to recover the costs of payphone compensation have been applied by the IXCs simultaneously*

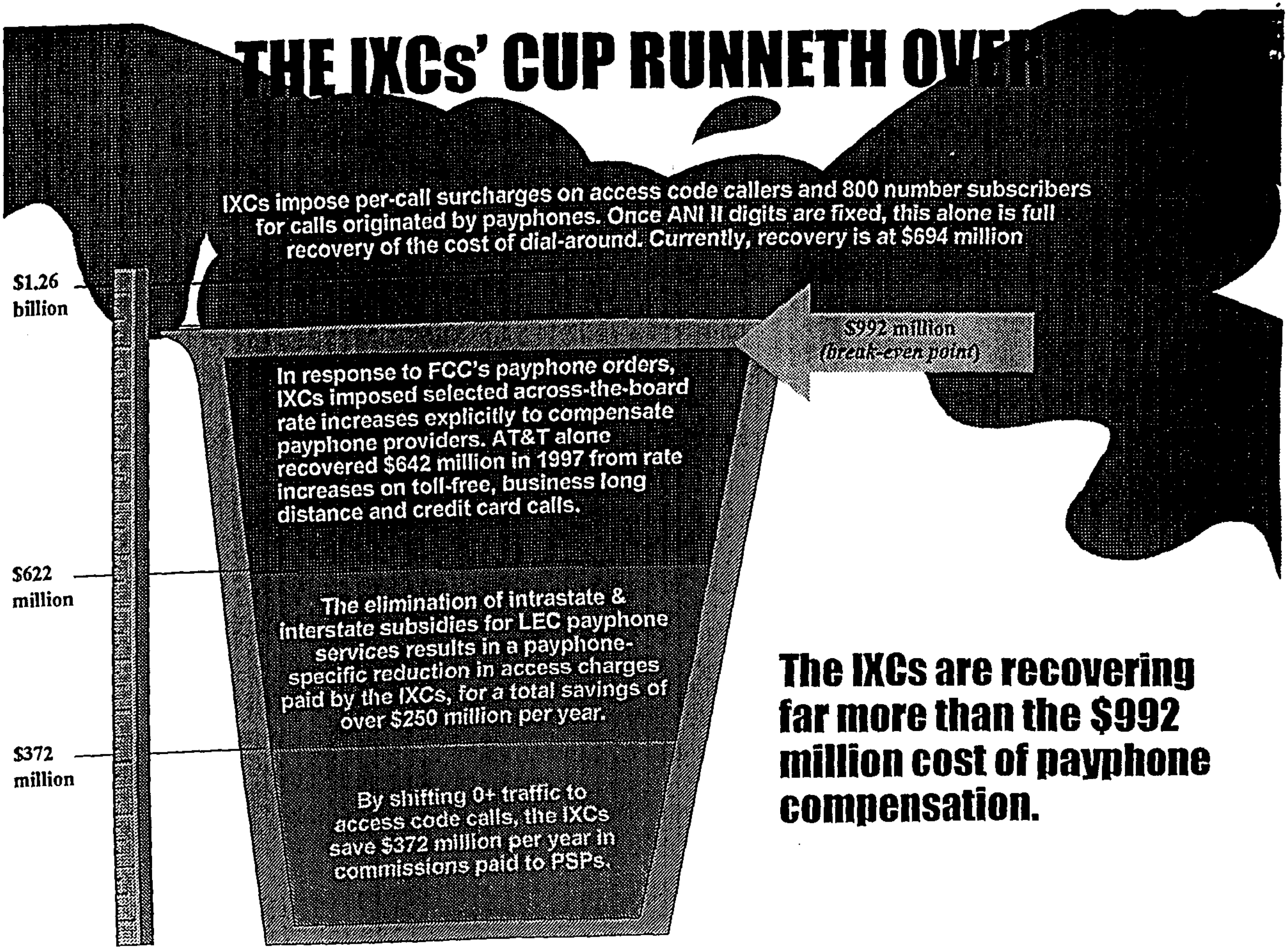
- "Quadruple dipping" by the IXCs has netted far more than the "costs" of payphone compensation payments to the PSPs

- Despite their claims of financial injury, the IXCs have converted the payphone compensation mechanism as an opportunity to *increase* their revenues

BREAKING EVEN



By recovering $992 million dollars per year, the IXCs break even on payphone compensation costs.



The IXCs are recovering far more than the $992 million cost of payphone compensation.

ATTACHMENT 3 TO APCC EX PARTE LETTER OF APRIL 15, 2002 RE STANDARDS FOR GRANTING RETROACTIVE TRUE-UPS:

GOING, GOING...GONE

Wireless options crowding out pay phones, leaving some people without a dial tone to depend on

By JAMES A. FUSSELL - The Kansas City Star

Date: 09/19/01 22:15

In the first Superman movie in 1978, Christopher Reeve signaled a major change in American life when he tried to locate a phone booth in which to change, only to find an open-air pay phone with no booth in sight.

Gee, where'd all the phone booths go?

More than 20 years later, another change is looming on the communications horizon. Today it's the pay phone itself that's in danger of disappearing.

That's not to say pay phones aren't still around. In fact, after the attack on the World Trade Center, people with malfunctioning cell phones had no choice but to use a pay phone to call home or file news reports. But the downward trends aren't very encouraging. Major providers have raised the price of a pay phone call to 50 cents. There are still 2.2 million pay phones in the United States, but that's down more than 15 percent from 2.6 million in 1998.

"That's a real hemorrhaging," said Robert Thompson, professor of media and popular culture at Syracuse University. "And with the penetration of cell phones you figure that it's just going to (keep going) exponentially."

Earlier this year Bell South decided it didn't like the financial ring of the pay phone business. It put its 143,000 pay phones on the block, abandoning a wobbling business that once symbolized a strong America on the move. Now the only thing that's moving is Americans' fickle allegiances -- from pay phone to cell phone.

In other words, ask not for whom the bell tolls, pay phones of America. It tolls for thee.

"We're only beginning to realize what a profound change this is," Thompson said. "It really marks an absolute sea change in the way human existence and communications operate. The cell phone has finally made each human being a personal transmitter and receiver to anywhere on planet Earth. The implications of this go right down to how we tell a story. In Lassie, when somebody got stuck under a log, they needed a faithful canine companion to go get help. But with cell phone technology, you know, who needs Lassie? Who needs the cavalry? Who needs any of it anymore?"

Today you can even call from your computer.

Bart Bartolozzi, director of strategic development for Net2Phone Inc., the world's largest PC-to-phone company, said Net2Phone allows laptop users with a headset and microphone to make cheap calls from their computers to any phone in the country. The service works by compressing voice to data, then restoring that data to a voice. The first five minutes of such calls are free.

Vince Sandusky, president of the American Public Communications Council, the national trade association representing independent pay phone service providers, has seen a significant drop in pay phone business.

"In 1996 our members were seeing about 700 calls per phone per month," he said. "Today that number is right around the 400 level."

But we can't let the industry die, he said.

"There are 51/2 million households that don't have phone service," he said. "Cell phones are wonderful. But two-thirds of the people, and only half of the households, have them. They rely and depend on pay phones exclusively. So that's the big public policy question that is being asked today. Where do they go? And what do they do?"

Chandra Davis of Kansas City, Kan., who has used pay phones for decades to check on her kids, said she didn't know what she would do if she couldn't find a pay phone.

She can't afford a cell phone, she said.

"My friends can't either. It's not fair. If you're rich you don't worry about it. But I'm not rich. You know? So what am I going to do?"

Dave Baxter of Olathe carries a cell phone but doesn't want to see pay phones disappear either.

"I think pay phones serve a purpose," he said. "I used one the other day when I reached for my cell phone and the battery was dead. We can't just take them all out."

Dave Lindgren, president of Kansas City-based Coyote Call Payphones, agreed that "telephone companies are pulling pay phones like weeds."

But that doesn't mean they'll disappear.

"We expect them to continue to be used by low-income earners and at convenience stores and facilities where cell phones are banned," he said.

Lindgren hopes regulators will make changes that will help save the pay phone industry, such as requiring telephone companies to provide dial tones to independent pay phone operators at no cost as required in the Telecommunications Act of 1996.

"It hurts to have to say no to apartment complexes, charitable organizations, manufacturing plants and smaller stores that plead for pay phone service but have no hope of generating enough calls to make it work."

There is a difference of opinion over what the Telecommunications Act requires. The Federal Communications Commission is expected to issue a ruling on it this fall.

In the next few years pay phones will become increasingly harder to find as wireless options become better and cheaper, said Imran Khan, a senior consumer analyst at the Yankee Group, a technology consulting company in Boston.

"They're really becoming cheap," Khan said. "You can go in and buy a pre-paid wireless phone now at some 7-Elevens."

And on the horizon? More competition for the beleaguered pay phone. Cheap disposable cell phones pre-loaded with 60 minutes of talk time that you'll soon be able to get at grocery stores and vending machines. When you're out of minutes you can either recharge the phones or throw them away. Most experts, however, say we're still several years away from seeing that technology widely available.

Ironically, the same technology that imperils pay phones may ultimately help save them. Recently AT&T began installing Internet-enabled pay phones, devices that allow the public to access the Web through high-speed connections, send or check e-mail or hook up a laptop to a dataport as well as make traditional calls.

Internet-enabled pay phones have been installed in larger airports and some major buildings. One of the first places they were installed was in the former World Trade Center.

The beginning of the end for traditional pay phones? What does it all mean?

Thompson, the pop culture professor, reflected.

"Pay phones had this really dramatic quality," he said. "You would be somewhere in the middle of the night, pouring rain, flat tire, and off in the distance you'd see a pay phone. It was your haven, your oasis....Today if you're talking on a pay phone it almost marks you as lower class or technologically out of step."

Experts say we are in a transition period, like the early 1900s, when some were driving cars while others rode horses.

It won't take long for that to change. "Cell phones are the new pay phones," he said. "In the very near future a cell phone is going to be like a flashlight. If you're caught without one, it's your fault."

Financial Times (London)
May 16, 2001, Wednesday Surveys ITI1
SECTION: SURVEY - FT TELECOMMS; Pg. 11

HEADLINE: Vanishing from the landscape: PAYPHONES IN THE US by Stephanie Kirchgaessner: Despite the importance of payphones to less advantaged communities, call box operators are abandoning the market:

BYLINE: By STEPHANIE KIRCHGAESSNER

Millions of Americans may have mobile phones, and the vast majority of the population have fixed lines, but for those who have neither, the payphone network can be a lifeline.

Even in the 21st century, nearly 5 per cent of US households are without any phone service. This creates the need for programmes such as Community Voicemail, which gives people who need communication, but do not have access to phones, a phone number and voicemail system, so that messages can be left for them and retrieved, usually from payphones.

The programme, available in 38 cities across the US, is targeted at the poor and the homeless, who need access to messages to alert them to jobs, and who are almost impossible to contact through the shelters in which they live.

It is also aimed at battered, desperate women such as Cheryl.

She could not use the phone at her home, for fear that her abuser would rip it out of the wall and hit her. Instead, she would use payphones to access messages from counsellors who convinced her to leave.

Unfortunately the programme, which provides a basic but essential function, could face serious obstacles if current trends in the telecoms industry continue. The payphone, once ordinary and readily accessible, is disappearing from the American landscape. Since 1998, the number of payphones available has decreased by 400,000 and now stands at 2.2m nationwide.

Just last month, BellSouth, a Baby Bell that covers the southeast of the US, said it would quit the payphone business by December of 2002, focusing its attention instead on the future of its business; its wireless communications businesses, which includes wireless telephones and pagers and has already seen explosive growth over the past few years.

BellSouth's decision to abandon its 143,000 payphones, which may be picked up by alternative carriers, is not surprising. The company says it saw a dramatic decrease in usage after 1998, the year wireless telecoms companies started offering packages of minutes combined with mobile phones at a reasonable price and usage rates of mobiles skyrocketed.

Decreased use of payphones for people on the go since the advent of the mobile is not the only factor hitting payphone providers' businesses. BellSouth, along with Verizon, and private payphone operators are not paid for about 35 per cent of the calls made from their phones, according to Vince Sanbusky, president of the American Public Communications Council (APCC), a trade organisation which represent private payphone operators.

Until recently, payphone service providers, such as Verizon, faced the impossible: they had to collect compensation for coinless (prepaid) calls made from their payphones by multiple carriers that could not be tracked.

For example, in the past, a company like WorldCom sold minutes of payphone usage to resellers, or companies that sell calling cards and other methods of coinless phone service. Verizon has, over the past few years, been forced to turn to the resellers, not WorldCom, to receive payment. The task was largely impossible, because resellers, of which there are hundreds, were impossible to track.

In April, however, the Federal Communications Commission released an order that would modify the way payphone carriers collect their money, placing the responsibility of collecting the revenues from toll free calls on the first carrier of the call, or, in this case, WorldCom, which, for Verizon, could easily be traced.

Though payphone operators see the order as a move in the right direction by the FCC, Verizon, among others, says it has taken the US telecoms regulator too long to find a solution to a problem that has caused the payphone industry to lose what the APCC estimates to be about Dollars 300m per year.

However, despite the drawbacks, Verizon says it will remain in the payphone business, unlike BellSouth.

"We have started with about 400,000 payphones worldwide, and we intend to stick with them," Jim Smith, a Verizon spokesperson, says.

"With the challenges of wireless, we need to enhance our product line, so we have things in the marketplace that people in motion might need - such as internet kiosks. We are also experimenting with computer modem ports in payphones," Mr Smith adds.

Taxicab and bus users may even find a mobile payphone at their disposal down the road, he says.

In a time of declining revenue, Verizon is removing phones from some areas to increase returns from other areas. But cutting back in some localities does not mean the company is ruling out making a gain in market share in other lucrative areas, particularly as BellSouth makes its exit.

Meanwhile, Richelet Jean, director of Community Voicemail in New York, says the elimination of payphones contributes to a growing digital divide, and ignores a huge part of the population that uses them for everything from emergency calls to long-distance services.

"The payphone around the corner becomes the connection to everyday life," Mr Jean says.

Bergen County (NJ) Record, May 6, 2001

THE END OF THE LINE? ; THE POOR AND ELDERLY ARE AMONG THOSE MOST DISADVANTAGED

BUSINESS; Pg. B1; 1591 words
The Record

To most North Jersey residents, telephones are as much a part of their homes as a mailbox, a television, or the kitchen sink. But for some, especially urban residents, a home phone is a luxury beyond their means.

As a result, even as more and more of their neighbors upgrade to cellphones, pagers, and all sorts of high-tech communication gizmos, leading to the elimination of nearly a quarter of the nation's pay phones in just four years, many consumers continue to rely almost exclusively on public phones as a vital link to friends, relatives, jobs, and merchants.

"There's a significant constituency,"said Vincent Sandusky, executive director of the American Public Communications Council, a Fairfax, Va.-based trade association representing 1,600 non-Bell-affiliated telephone companies.

More than 5.5 million homes, including an estimated 25 percent of urban poor households, do not have basic telephone service. These households rely on [pay telephones] for all kinds of calls, from the mundane to the emergency, he said.

The dramatic growth in cellphones, especially since 1998, has cut into pay-phone business. The industry peaked at 2.6 million pay phones in the United States in 1996, after new federal regulations opened the market to competition, but by last year the number had dropped more than 23 percent, to 2.06 million, Sandusky said.

At the same time, usage of remaining phones continues to fall, with volume per phone declining from an average of 712 calls a month in 1996 to about to 500 now, Sandusky said.

Much of the business has gone to wireless communications. The number of cellphone subscribers, which was under 1 million until 1987, grew from 69 million in 1998 to 110 million last year, according to the Cellular Telecommunications & Internet Association, a Washington-based trade organization.

As Barbara Silkworth, president of the New Jersey Pay Telephone Association, put it,"Business is not what it used to be, and not what we would like 1 it to be. But pay phones are still around."

The outlook is bleak enough that one of the nation's largest telephone companies, BellSouth, recently announced it would get out of the pay phone business. BellSouth operated 143,000 pay phones.

"They're just going to walk away,"Sandusky said."They can make more money selling dial tone to pay-phone providers. That's a pretty strong statement about the state of the industry right now."

Maybe so, but pay phones are still important to people such as Eva Beesley of Wallington and Starr ("I'm like Madonna; I have just one name"), who lives in Paterson.

"They're definitely a necessity,"Starr said after making a call at a pay phone on Main Street in the bustling South Paterson neighborhood.

"I have no phone in my house."
Large segments of the population, particularly in the urban areas, Newark, Jersey City, the Oranges, Paterson, New Brunswick, Dover, Elizabeth, Trenton, and Camden, still use pay phones almost exclusively, said Arthur Cooper, the owner of Actel Inc., a Cedar Knolls-based private pay phone owner.
Cooper, whose company owns 300 phones in New Jersey, said his "best guesstimate"is that 20 percent of the people in the inner cities, where most of his phones are installed, lack phones of their own.
Even people who can afford monthly payments are sometimes denied phones because of their"inability to maintain a credit relationship," he said."They are precluded from having cellphones for the same reason."
Verizon Communications Inc. does not require a deposit if the customer had service in the last three years and has good credit, said spokeswoman Lacy Yeatts. But others must pay $ 100 or more. The amount is equal to two months billing for the average New Jersey customer, Yeatts said.
That's Starr's problem."They wanted $ 100,"she said. "Prepaid."
But she can afford a pager, so Starr receives messages on her pager, and uses pay phones to get back to callers.
Even as the number of pay phones drops steadily, people in South Paterson have no trouble finding one. There are as many as six on some blocks, bolted to the facades of local businesses or standing atop curbside poles, topped by their easy-to-spot signs. Additional 1 phones are in stores and bars.
Some are owned by the long-established Verizon,, the former Bell Atlantic, and many customers consider those phones the most reliable, Beesley said. But others carry less familiar names, such as Crescent Telephone Co., Phone Tech Inc., or Cooper's Actel. Some of them offer discounted rates.
Pay phones are plentiful in other blue-collar areas dominated by foreign-born residents, such as near the intersection of Anderson and Fairview avenues on the Fairview-North Bergen border, and even in more upscale business districts, such as Main Street in Fort Lee and Cedar Lane in Teaneck.
William Gray invented the unattended coin pay phone in 1889 and installed the first one at a bank in Hartford, Conn. Pay-phone technology didn't change much between 1913, with the invention of the three-slot phone, and 1965, when modern, single-coin models debuted.
The industry changed radically in 1984, when the Federal Communications Commission ruled that local phone companies had to open their networks to competitors. Quickly, the established utilities lost their monopolies. A quarter of the nation's 2 million pay phones are now owned by independents.
But after more than a century of growth, pay phone use is declining, and the phones are becoming hard to find in the suburbs, airports, and college campuses and along highways.
"In Wallington, there are no pay phones for four blocks,"Beesley said.

And the volume of calls from many of those phones, as well as those at highway gas stations, has fallen, Cooper said."It's not that the pay phones aren't used at all, but use is on the decline,"he said.
When that happens, phone owners pull the plug. It costs a company about $ 2,000 for equipment and installation and to procure a location, and there are ongoing costs for line rentals and commission to the site's owner, Cooper said.
Blame it on the dramatic growth in wireless use over the last 2 1/2 years or so, said Paul Francischetti, vice president of marketing and business development for Verizon's public communications group.
"There's no question. This is a tough business and it has become even tougher,"Francischetti said.
Although wireless use was cutting into pay phone business for years, the impact has been greatest since the fall of 1998, he said.
"That's when the real cellphone price wars erupted, with flat rates, nationwide coverage, free minutes. That's when the curve started changing. We saw a real dramatic change in wireless use, and that translated into a downward trend in pay phone usage."
Even with the slippage, and Bell South's decision, Verizon has no intention to exit the business, Francischetti said.
"We have different market demographics than Bell South, the kind of core users of pay phones,"he said."We tend to have more larger urban areas, we tend to have more people who still use pay phones, and use them frequently," he said.
Pay phones also remain important for"a significant segment of the working population,"and it's not just the 1 "unsubscribed,"like Starr and Beesley, who don't have land-lined phones.
There also are people who don't have access to a phone at work, and for whom cellphones are impractical, Francischetti said.
"I come to work, and have access to a phone on my desk,"he said. "But a large segment of the population, mostly blue collar, factory, restaurant, or service industry workers, have no access to a phone, except a pay phone in the break room or cafeteria."
There also are"wireless gap" users, who turn to pay phones because their cellphones don't work, Francischetti said. "Ten years ago, they used pay phones and wireless only when couldn't find one. Nowadays, we're seeing that kind of reversed. The 'gap phone is the [pay phone]."
"It's great when your cellphone batteries die," said Mustafa Tugezin of Paterson, who said he uses public phones often.
Pay phones also are important in group homes, halfway houses, rehabilitation centers, and other institutions that can't afford to supply all their residents communications needs, said Elaine Meyerson, executive director of Shelter Our Sisters, a Bergen County residence for women who are victims of domestic violence.
Residents rely on pay phones, Meyerson said."They need to communicate about jobs, housing, and it gets very costly."
Heavy users also include the"pre-adult" market, a segment that cuts across socioeconomic lines, and people at airports and railroad and bus stations.

"Most of those places are dominated by multiple banks of phones, never a single phone, and we're starting to see the banks getting smaller," Francischetti said.

"Maybe five years ago, three years ago, they needed five pay phones in a bank. Now they need only four. A lot of the decline in the number of pay phones is reflective of the number of phones in banks."

That's what happened at Ramapo College in Mahwah. Two years ago there were 71 pay phones on campus; and now there are 36, including four in a new building, said spokeswoman Bonnie Franklin.

The reason? They weren't profitable.

Daily Reveille (Baton Rouge, LA) - 04/18/2001

Lack of payphones makes campus unnecessarily dangerous

Where are the pay phones on this campus? I know there are a few scattered in various buildings. However, there are some buildings where it is virtually impossible to find a pay phone and it becomes even more of a scavenger hunt once you go outside of the buildings. LSU is a large campus with over 30,000 students. It is very eerie at night in some areas on campus. Once, a couple of years back, I was stuck on campus around 2 am. after the library closed. I was lollygagging and talking to friends and then we headed in different directions to our cars. When I got to my car I had a problem starting it.

I ran back to the library but the doors were locked. I tried to see if my friends were still around but they were not. I went to various buildings pulling on doors to no avail. Finally I arrived at the Astronomy and Physics Department where luckily I saw one lone graduate student going into the building. He had a key. I told him my situation and he let me in to use the telephone in his office. He saved me that night. (Which now I know wasn't really safe either). Thank God he wasn't a serial killer or rapist.

I know that this is the age of technological advancement and that a lot of students possess cell phones but still a lot of students do not. While I do not think it is appropriate to add a pay phone to each and every corner on campus. I do feel that a couple of pay phones on the outside of buildings, or near The Union even, would be sufficient. I am sure that if I was caught in that situation other students have been also. And what about the countless visitors to our campus? I can't count how many times I have been stopped by people asking me where the nearest pay phone is.

Shienne Jones

The Bismarck (ND) Tribune, April 11, 2001

Shrinking revenues lead to a few less pay phones

JOE GARDYASZ , Bismarck Tribune

The only thing worse than not being able to get change for the pay phone: Not finding a pay phone when you really need one.

Public pay phones are disappearing from the American landscape, and North Dakota's no exception. In just the past month, pay phone companies have reduced the number of phones at Bismarck's Civic Center, the airport and around downtown.

Around North Dakota, pay phones are particularly important in poor communities such as the Standing Rock Reservation. Most people on the reservation don't have phones, and it's about a mile into Fort Yates to use one of a handful of pay phones.

At Bismarck's middle schools and high schools, free courtesy phones have replaced pay phones completely, which administrators say has proven a better service to students.

According to the American Public Communications Council, there are now about 2.2 million pay phones in service around the country, about 400,000 fewer than just two years ago.

Nationally, the majority of pay phones are operated by large "local exchange carrier" companies such as Qwest.

Like the other former Baby Bells, Qwest has cut back considerably on pay phones in recent years. Others, such as BellSouth, have opted to hang up the pay phone business entirely.

Qwest, formerly U S West, sold 400 of its North Dakota pay phones to a rural exchange carrier in 1997. Additionally, the company has taken about 20 percent of its remaining pay phones in North Dakota out of service since 1998, spokesman Kent Blickensderfer said. Qwest now operates 938 pay phones in the state, compared to nearly 1,200 three years ago.

The remainder of pay phones nationwide, about 400,000, are operated by independent pay phone providers that pay local exchange carriers for access lines.

U.S. Telecoin, a pay phone company operating in 17 states, has taken about 30 percent of its phones out of service in the past three years, said Albert Mokry, the company's president. In North Dakota, the Dallas-based company has cut back from 330 phones to just fewer than 250.

With the increasing use of 800 numbers, dial-around long distance services and calling cards, the pay phone providers are getting reimbursed for only a fraction of the actual calls being made, Mokry said. At the same time, pay phones are being used less as cell phones become more prevalent.

Many of the phones that have been pulled were in libraries, schools and parks, the type of less profitable locations the companies have subsidized in the past with revenue from busier locations, he said.

Cell phone usage has also reduced pay phone revenues, but not so much in rural areas because there aren't as many cell towers there, he said.

"To me, it's a pretty simple issue," Mokry said. "We're having to take out phones that once were profitable. And locations that once were two-phone locations are one-phone or no-phone locations."

Hit hardest

Meanwhile, the trend of disappearing pay phones is hitting the poor and rural communities the hardest, according to the APCC. The council estimates one in four poor Americans living in rural areas lack basic home telephone service. It also estimates that 86 percent of rural households and 92 percent of poor households don't own a cell phone.

Residents on the Standing Rock Reservation have access to four public pay telephones, each located at Fort Yates.

Until last year, there had been just one at the police station, according to the tribal chairman's office. Additional phones were installed at the two service stations and the liquor store to cut down on calls being made from the chairman's phone, however.

The phone bill for the chairman's office reached $4,000 a month because of tribal members using the phone for non-emergency calls, said Pearl Three Legs, executive clerk to the tribal chairman.

Now, members are sent directly to the appropriate department and are allowed to use the phone only for actual emergencies, such as a death in the family, she said.

Having a pay phone or two near the residential areas would be helpful, Three Legs said. "There's quite a difference to walk in to town. It's a good mile, three-quarters of a mile to walk in to use the phone."

In March, some pay phones contracted to the city of Bismarck went out of service after the company providing the phones went bankrupt. The new [pay phone] provider, U.S. Telecoin, has since cut back the number of phones at each location. The Bismarck Civic Center, for instance, went from 12 phones to eight.

"You're seeing more and more people using cell phones," Civic Center Manager Dick Peterson said. "Our concern is individuals who come to an event who need to communicate to get a ride." There is a free courtesy phone people can use for local calls, however.

There are also fewer pay telephones at the airport, where seven out of 17 phones were recently removed. The explosion in cell phone usage has been a factor, Airport Manager Greg Haug said.

"You hate to lose any of them at any time, but the bottom line is they've got to be able to cover their costs and make a small amount of money off the service provided," he said.

Other high-tech conveniences may assist travelers in at least more easily e-mailing their offices. Haug said he has been approached by a company interested in installing a wireless Internet for the airport.

More efficient

In the Bismarck School District, many of the schools have replaced pay phones with free courtesy phones in the past couple of years, said Jerry Gusaas, the district's director of buildings and grounds.

"It's way more efficient to pay just the line charge than to pay for the (pay) phone system because they weren't being used enough," he said. The phones each have a block on them to prevent long distance calls from being made.

The only added cost was buying some durable phones, he said.

The school district is also experimenting with courtesy phones at several of the elementary schools in the gyms for people to use following after-hours events.

"It's awful nice for people to have that option," Gusaas said. "Kids don't have to dig for 35 cents. I suppose a lot of them have cell phones, though."

BellSouth exit from pay phone business to leave some cut off

By Bruce Meyerson
March 16, 2001

The Associated Press
Asheville (NC) Citizen-Times, NC

Germy handsets. Jammed coin slots. Inflated calling rates. There are plenty of reasons not to use [pay phones], especially with mobile phones growing ever cheaper for daily use.

The nation's big local phone companies, which also happen to triple as the nation's biggest [pay phone] and wireless operators, couldn't agree more - a point made clear by BellSouth Corp.'s abrupt decision to ditch all 143,000 of its [pay phones] by the end of 2002.

While many states are already facing a sharp drop in [pay phones] - a half million have vanished from the national landscape over the past five years - few envisioned having to deal with the void created by a full-scale pullout by one of the Baby Bells.

So far, there's been no official protest of BellSouth's move by federal or local agencies, though state regulators say they're determined to maintain a minimum level of [pay phone] access as a matter of public safety and basic services.

Certainly, with more than a third of the U.S. population toting around mobile phones, many people have a handy alternative.

But often enough, there's still no good substitute for a [pay phone], both in the remote areas where the slow trickle of calls makes it hard to generate profits, and in the high-usage urban centers, where phones are prone to costly vandalism and fraud.

Cellular service is scarce in the swamps of Louisiana and other remote areas in the nine-state region in the Southeast served by BellSouth.

And nationwide, nearly 6 million homes don't have local phone service, with seven of the BellSouth states ranking among the weakest penetration levels in the country.

"I can tell you that not everyone has a phone or cellphone," said Christine Norwood, manager of an Amoco gas station in Jackson, Miss. With two colleges and several apartment buildings nearby, the station's BellSouth phones take in some serious change.

"It's busy out there at certain times of the day - around noon, around

5 and late at night."

Ernest Turner, who owns Mid-Way Stop & Shop in Baconton, in rural southwest Georgia, said the BellSouth phone outside his store is used heavily by migrant produce workers who stay in the area for only about three months each year.

The Federal Communications Commission wouldn't comment on BellSouth's plans. But the topic could come up as part of the agency's current deliberations on the thorny issue of how long-distance companies compensate [pay phone] providers for toll-free, collect and other dial-around calls.

Worried about the potential backlash, BellSouth made sure to consult with state regulators before announcing its plan and said it will continue to discuss the matter with them.

"It's nothing we don't feel we can't work out," said Jeff Battcher, a BellSouth spokesman.

The Atlanta-based company argues that many of its phones will be purchased by independent operators, but some observers say those carriers will buy only the most profitable phones.

"A public-interest [pay phone], by definition, doesn't pay for itself, so why would anybody buy something that doesn't pay for itself?" said James Ramsay, general counsel for the National Association of Regulatory Utility Commissioners. "The market won't solve that problem, so the problem has to be solved by regulators. The FCC will definitely have to look at it."

Even a [pay phone] that is profitable for a Baby Bell may be a money loser for another operator unless the FCC evens the playing field, says Albert H. Kramer, attorney for the American Public Communications Council, a trade group representing 1,600 independent carriers who operate about 500,000 [pay phones].

Kramer says independent carriers are shortchanged by long-distance companies and the Bells overcharge them to connect [pay-phone] calls.

Some state agencies are looking into ways to keep [pay phones] available.

In Louisiana, "we have bayous and lakes everywhere and we have public boat landings in the middle of the boondocks, and we like to have a [pay phone] there if there's an accident," said Lawrence St. Blanc, executive secretary of the state's Public Service Commission.

"Now that (BellSouth is) getting out of the [pay-phone] business, we're faced with the issue of who's going to be the [pay-phone] operator of last resort," said St. Blanc. "We may talk to Bell and say you've got to get back into the [pay phone] business. But when you do something like that, you do have to have some concession for payment to them."

It's hard to blame BellSouth for wanting to leave the [pay-phone] business, a part of the telephone industry that's never been very profitable and promises to grow ever more difficult with the growing competition from wireless phones.

"It was a marginal business 20 years ago," said Rex Mitchell, an industry analyst for BB&T Capital Markets and a former Bell System employee.

The number of [pay phones] nationwide has plunged to 2.1 million from 2.6 million only five years ago, when the Telecommunications Act of 1996 freed the Baby Bells of many obligations to operate "public interest" [pay phones] in otherwise unprofitable settings.

But faced with the new reality as expressed by BellSouth, many officials and consumer advocates argue that the Bell monopolies still have certain obligations.

Some consumer advocates feel the government would be justified in forcing the Baby Bells to shoulder the burden in exchange for being allowed to control the phone lines connecting homes and businesses in their markets.

"I wouldn't be surprised to see a local government step up and say, 'Hey, you're not going to take the phones away from the schools and public roads,"' said Mitchell.

"The responsible thing for the government to do would be to say that this phone is for the public good, so they will pay for it. But the expedient thing for the government to do is say, 'You have to continue with this obligation."'

14 O Henry Ave., Asheville, NC 28801, Phone (828) 252-5611

Sun-Sentinel

Yanking pay phones is like pulling plug on people's lives

By Rob Borsellino
February 22, 2001

By the time she was 30, J.B. had a dying husband, a 5-year-old kid, a small, dark apartment in the projects and a dead-end factory job. She was making about $40 a week, lousy money even back in the mid-1950s. A year later she was a widow and that $40 was the only thing between her and the street.

She had to sell the car, take the kid out of Catholic school and give up any hope of moving out of the projects. Movies and an occasional dinner out were pretty much a thing of the past. She starting walking to work, saving the $2-a-week bus fare and using it for small luxuries like ice cream or pizza for the kid.

There were other day-to-day things she had to give up, a lot of it painful. But nothing hurt as bad as having the phone turned off when she couldn't pay the bill. That meant she had to go up the block to the candy store to use the pay phones. That store was the local nerve center, the hangout. So she'd be standing there waiting to make a call and her neighbors were dropping in to get a pack of cigarettes, coffee or a newspaper.

J.B. felt like she was wearing a sign that said: "I'm broke."

And it was even rougher on her kid. He'd be waiting to talk to his grandmother while his friends were in and out of there getting baseball cards, a soda, thumbing through a comic book. Most had the decency to make believe they didn't see him. A few had to be jerks about it.

This went on until the kid was about 11 and got a paper route. With that money they had the phone turned on, but the trauma stayed with them for years.

I got to thinking about J.B. the other day when I saw that some of the honchos in Delray Beach are trying to get the public phones pulled from the western edge of Atlantic Avenue. They say those phones are fueling a crime problem. Get rid of them and you help clean up that area.

What caught my eye was a line from Rosalind Murray, a city official who said: "I bet that 99 percent of the people who use them are undesirables."

It seemed like a pretty cold thing to say. I wanted to see for myself. So I went and hung out near the front of the Atlantic Grocery on Seventh to see who came by to use the pay phones.

First up was Rhoda Wilson, a single mother who works as a bookkeeper down the street. Her son was home sick and she was checking in. She doesn't like to use the phone at work for personal calls. Wilson hadn't heard about the push to get rid of the phones and had a hard time believing it.

"This is a neighborhood grocery store. You come out, you use the phone. People in their cars pull over all the time to use the phone. What is the problem?"

Criminals? Drug dealers?

"Drug dealers have cell phones and beepers. You think they're going to stand here in the middle of the busiest street around here and use the phone? They probably figure it's tapped anyway."

She headed back to work and a few minutes later Charles Alford came by. He's a landscaper, lives around the corner and rarely uses the pay phones. But he's glad the phones are out there because a lot of folks need them. Alford heard they might be pulled, and he wasn't surprised.

"There are people around here who think everything about this neighborhood is a problem. It's not about phones. It's about this community. Most of the people down here are working hard to raise their kids and they get treated like they're all criminals."

Fred McCrimion, a trucker from Lake Worth, stopped by to call his girlfriend. A guy on a bike pulled up to let his wife know he'd be home in an hour.

Lisa couldn't carry her groceries and needed a ride back to Linton Boulevard. She called a friend, then sat on the curb and waited.

"I've got AIDS and I get tired quick. If they take these phones away I don't know what I'm going to do. We need these. Things happen around here and we got to call the cops, paramedics. It's unfair."

Her ride showed up, she left and others came by to use the phones. They weren't the best-dressed, most articulate folks you'd meet in Delray Beach. They were a mix of street people and working class, mostly locals, some just passing through town. Some were real slick, some had a few rough edges.

They were the kind of folks you'd have found waiting on line with J.B. and her kid

Rob Borsellino is the local columnist in Palm Beach County for the *Sun-Sentinel.*

latimes.com Los Angeles Times

Removal of Many Pay Phones Poses Problems for Small-Town Residents

Economics: Companies blame competition from cell phones and 800 numbers. But some people say the service is their lifeline.

January 22, 2001
By Bettina Boxall
Times Staff Writer

The pay phone in Goodyears Bar, population 100, is gone. So is the one in Gazelle, population 400, and the one at the public school in pint-sized Pike.

The ubiquitous pay phone is disappearing from lonely outposts and city street corners throughout the state, the victim of cellular phone ompetition and other economic ,ressures.

In the last year, companies yanked out about 1,000 pay phones a month in California. No one is predicting that coin box phones will vanish from the landscape, but their declining numbers are stirring outcries in rural settlements and urban neighborhoods alike.

The loss is particularly painful in the back country, where cell phones may not work and some residents may not have a phone line to their house.

It doesn't sound really serious when you say, 'Take a pay phone out here and there,' if you live in a city," said Siskiyou County Supervisor Bill Hoy. "But when you take one out of a community and it's 10, 20 miles or 100 miles to the next pay phone, it's different."

Since Gazelle, a farm and ranch community about 20 miles from Mt. Shasta, lost its lone pay phone last fall, Postmaster Barry Thomsen has had to come to the rescue of a local woman /ith pneumonia and a man who ran out of kerosene to heat his trailer.

They both asked him to phone for help, which he did.

"I just wonder, if there's a real emergency when I'm not open, what people do," Thomsen said. Sure, they can go to a house, he said, but "if [the residents] don't know you and it's dark, some of these people are not going to be eager to open their door."

Thomsen is crossing his fingers that the nearest pay phone, nine miles away, doesn't get carted off as well.

Over in Goodyears Bar in scantily populated Sierra County, Cheryl Morse tried without success to get Pacific Bell to reinstall the public phone that was removed in late 1999 from the spot where it had stood for at least two decades, next to an old one-room schoolhouse.

"Tragedies happen, and we need that phone booth there. It's that simple," she said.

Cell phones don't work in the little enclave, next to a fork of the Yuba River popular with rafters. "It's just scary that there is no phone there now for any kind of emergency," Morse said. "That river is used a lot."

Pacific Bell is in the process of taking out about 22,000 of the 140,000 pay phones it owns in California. Other companies are pulling out some of their public phones.

There are now 258,658 pay phones in California, compared with 270,000 a year ago, according to the state Public Utilities Commission.

Pay phone owners say the shrinking numbers are a simple product of economics.

The cell phone explosion has stolen customers, and the growing use of 800 numbers and debit cards has made it harder for pay phone companies to collect fees from carriers.

Changes in federal regulations in 1996 also barred phone companies from subsidizing their pay phone divisions with revenue from other parts of their operation.

All that means that unprofitable pay phones are under scrutiny as never before.

"I think there's a lot of phone removal to come," said Thomas Keane, president of the California Pay Phone Assn. and chief executive of Pacific Coin, which owns pay phones in California, Arizona and Nevada.

The trend is evident across the country.

Vince Sandusky, president of the American Public Communications Council, which represents the pay phone industry, estimated that the number of pay phones peaked nationally in 1998 at 2.6 million. That figure has since fallen by more than 400,000.

Martin Garrick, who owns a small pay phone company in San Diego, goes so far as to characterize his industry as "a buggy whip business" on the wane because of market and technology forces.

"Having a pay phone that someone has to clean and repair every month when that's no longer subsidized is no longer feasible," he said.

Pacific Bell media relations director John Britton and other phone industry representatives pointed out that California does have a fund that will subsidize public phones if they are deemed necessary for public health and safety.

The PUC said a number of applications to the fund are pending, but there are now only 75 such phones in the state.

And if a store owner or community really feels a pay phone is necessary, Garrick said, they can install their own for $1,500 to $2,000 and then pay monthly line fees of $30 to $50.

Indeed, Britton said that after Pacific Bell removed pay phones from campuses in a Bay Area school district, officials decided to lease seven phones to get them back on school grounds.

That's unlikely to happen at Pliocene Ridge Schools in the Sierra County hamlet of Pike.

"Ha ha," responded special education teacher Rayette Ringle when asked whether the school might replace the phone removed by Pacific Bell last year.

The 100 or so students at the small school, kindergarten through 12th grade, greatly miss the pay phone, she said. "It makes you feel like you're connected. It was scary to see it ripped out."

Pay Phone Decline Hurts Those in Need

January 7, 2001
By John Bankston
Staff Writer

Travis Burke, a public communications technician with BellSouth, repairs a pay phone in the West Town Plaza shopping center on Washington Road. CHRIS THELEN/STAFF

In the age of cell phones and wireless connections, 5.7 million American households still lack residential phone service.

For these families, pay phones aren't a luxury - they're a necessity.

Last year alone, Georgia lost 1,700 pay phones. There were about 2.6 million pay phones in America in 1998; that number shrank to nearly 2.1 million in 2000.

The decrease coincides with the increasing popularity and affordability of wireless telephones.

But the American Public Communications Council, a lobbying group for independent pay phone companies, says local phone companies and long-distance providers have accelerated the decline by not adequately reimbursing pay phone providers under federal regulations.

The organization says pay phone disconnection has a disproportionately negative impact on poor and minority households - people who are most likely to not have residential phone service.

APCC President Vince Sandusky said local phone companies overcharge independents for connections, and long-distance companies do not fully compensate them for some types of pay phone calls.

The decrease in the number of pay phones coincides with the increasing popularity and affordability of wireless telephones. STAFF

"They're getting squeezed from both sides," Mr. Sandusky said. "It makes a huge impact on whether it's economical to keep a phone in place."

Both the overcharging and the undercompensation are contrary to the spirit of the Telecommunications Act of 1996, which was designed to open local phone service to competition.

Telecom Act problems

Independent pay phone service providers pay a monthly fee to local phone companies, such as BellSouth, for a dial tone. The Telecom Act requires local phone companies to provide the hookup at near-cost so local companies can't use their monopoly pricing power to squelch competition.

"Unfortunately, the Feds never issued clear guidelines as to what 'cost' means - it was left up to the states to decide," Mr. Sandusky said.

Some phone companies use this interpretive freedom to set high costs with generous profits built in, Mr. Sandusky said.

BellSouth charges independents in Georgia $33.80, which is the true cost of providing service to any customer, BellSouth spokesman Joe Chandler said.

However, he pointed out, residential customers pay less and business customers pay more.

"We charge less than $18.50 for residential phone service," he said. "We charge businesses well above $33. Historically, business has always subsidized residential phone service."

Demographics of cellular phone ownership

Category/ Percent of People Owning Cellular Phones

Household Income over $75K/53 percent

$10,000-20,000/ 13 percent

Less than $5,000/ 8 percent

Urban/ 32 percent

Suburban/ 54 percent

Rural/ 14 percent

Mr. Chandler said BellSouth's rate for pay phone companies was $46 a month. The new lower rate took effect July 1, 1999, after negotiations with the Georgia Public Communications Association, a state association of independent pay phone providers.

But the APCC said the fee should be no more than $20, well below the $55-$60 that the average independent pay phone provider pays in the United States.

"The fight federally is to get the FCC to issue clear guidelines," Mr. Sandusky said. "For the most part, the phone companies are on one side and we're on the other."

The Telecom Act also requires independent pay phone service providers to be compensated 24 cents for each "dial-around" call, which is a call made through a service such as 1-800-COLLECT and 10-10-220, in addition to toll-free 800 numbers.

Yet the APCC says independents go unpaid on 35 percent of dial-around calls because large long-distance companies, such as AT&T and MCI WorldCom, have not been held responsible for the second- and third-tier companies they allow to use their networks.

The smaller companies, which buy the larger company's excess network capacity at wholesale prices, are the last link in the chain and are theoretically responsible for compensating the independent pay phone companies under Federal Communications Commission rules.

The trouble is, the large phone companies do not disclose, for proprietary reasons, their wholesale customers. Pay phone companies have no way of knowing which calls were wholesale, and to whom.

In the heady world of independent pay phone telecommunications, payment for services rendered hinges on the honor system.

"The system itself is the problem," Mr. Sandusky said. "Essentially, you get paid by those who recognize their obligations; you don't get paid by those who don't."

He estimates uncompensated pay phone calls cost independents $300 million per year.

The American Public Communications Council is lobbying the FCC to revise its regulations to require the first link in the chain be responsible for compensation.

"That's the only way it's able to be audited," Mr. Sandusky said.

Creating a social issue

According to the U.S. Census Bureau's March 2000 survey, 95 percent of American households have telephones. For families with incomes below $10,000, that number drops to 88 percent. For families with incomes below $5,000, it drops to 80 percent.

The trend continues in minority households: 95 percent of white households have telephones; 90 percent of black and Hispanic households do.

Poor minorities fare even worse. Just 71 percent of black families earning less than $5,000 per year have a telephone; 81 percent of poor whites do.

A sampling of independent [pay telephones] disconnected between January 1998 and July 2000 in Illinois, Maryland, Michigan and South Carolina shows the percentage of disconnected pay phones in ZIP codes with high percentages of poor and minority households is significantly high.

"It breaks down on racial and income levels," Mr. Sandusky said. "Pay phones are disappearing in economically disadvantaged neighborhoods and minority neighborhoods, where they're clearly needed the most. Many households depend on pay phones because they don't have a phone in the home."

ZIP codes with a high minority percentage in Maryland and Michigan have experienced about double the proportion of disconnected pay phones compared with the states' populations.

The proportion of disconnected pay phones in the low income and minority ZIP codes of Illinois and South Carolina are also greater than those of the states' populations.

In order to get the FCC to change its regulations, Mr. Sandusky said he plans to stress the situation's social aspects.

"There's no appetite for the FCC to continue the battle, and the carrier community would dispute some of this stuff," Mr. Sandusky said. "Some carriers say the system is not broken; some say it is. Pay phone service providers want to see a change. Perhaps by stressing the social elements, we will see some action."

Reach John Bankston at (706) 823-3352 or jbanks15@hotmail.com

Wednesday, November 1, 2000

Pay phones becoming extinct?

Cellular, prepaid cards cutting into service many use

By Kim Kozlowski / The Detroit News

DETROIT -- Debra Jacobs was waiting for the next bus to take her home earlier this week when she realized she was running late.

So Jacobs, 33, reached into her pocket for some coins and turned to a nearby pay telephone -- her lifeline for connecting with family, friends and her children's teachers.

"I don't have a phone at home so I use pay phones every day," said Jacobs, a Detroit resident. "I don't know what I would do without them."

As cell phone ownership explodes and prepaid phone cards gain popularity, the trusty pay phone is suffering from neglect and being removed, often from areas that need them the most.

Over the past two years, 300,000 to 400,000 pay phones across the country have been removed from mostly urban and rural areas because they are no longer making money.

Michigan's estimated 100,000 pay phones have dwindled by about 10 percent in recent years, leaving empty shells as a reminder of a 20th-century icon quietly becoming less of a necessity than in the past.

But don't call pay phones dinosaurs just yet.

Though more than 100 million people own cell phones, there are still 2.5 million pay phones on the streets, providing salvation for runaways, victims of domestic violence and the 5.7 million people who don't have phones in their home.

"Pay phones are not relics and they are

David Guralnick / The Detroit News

Debra Jacobs, 33, of Detroit uses pay phones because she doesn't have a home line. "I don't know what I would do without (pay phones)," she said.

Facts about pay phones

Think pay telephones are a relic of the past? Think again.

* For millions of Americans, the pay phone is the only phone, and a vital link to the outside world.

* Pay phones provide an important public service for victims of domestic violence, runaways, substance abusers, and health information with 24-hour-per-day access to toll-free hotlines.

* Pay phone technology is evolving with Internet kiosks, video phones and other products that will put modern telecommunications technology in the hands of consumers who can't have it any other way.

Source: The American Public Communications Council.

Cell phone use

Cell phones are one of the reasons pay phones are becoming less necessary for millions of Americans. Southeast Michigan leads the nation in the percentage of people who own cell phones, according to Scarborough Research in New York.

* 64 percent, or 2.4 million adults 18 and

not becoming extinct," said Vince Sandusky, president of the American Public Communications Council Inc. "But the industry is under considerable pressure because of wireless technologies and other ways to communicate."

The American Public Communications Council recently asked its members, independent pay phone providers, to take a random survey detailing the number of pay phones they have removed.

Though the response was minimal, the data showed that often pay phones were being removed from urban and rural areas.

"We do think the disadvantaged areas are the ones most likely to suffer from pay phone loss," Sandusky said. He said people living in those areas likely can't afford a cell phone.

Since cell phones have come on the market and become more affordable, they have transformed our society. Nowadays, it is not unusual to hear cell phones ringing in restaurants and theaters or see people talking on them when they are hiking in the woods or driving their car.

Southeastern Michigan especially loves cell phones: It leads the nation in the percentage of people who own cell phones. According to a study last month by New York-based Scarborough Research, 64 percent of adults in the region own a cell phone, beating out other large cities such as Chicago, New York and San Francisco.

But the popularity of cell phones isn't the only reason that pay telephones are suffering a blow.

More people are buying prepaid calling cards or using their own calling cards to make calls at pay telephones and not depositing coins into the phone.

Long-distance companies are supposed to reimburse pay phone owners for these calls, but not all of them are doing so, according to the American Public Communications Council. As a result, pay telephone providers have lost millions of dollars in revenue.

In addition, independent pay telephone providers claim owners of the telephone lines are overcharging them.

Bart Lewin, executive director of the Michigan Pay Telephone Association, called the fee "exorbitant" in Michigan.

"Removal of pay phones has always occurred," Lewin said. "There's greater challenges in the industry today than there was a few years ago."

The viability of pay telephones may depend on pay phone operators finding alternative sources of funding, such as installing equipment to offer Internet access. But such innovations are in their infancy.

Pay telephones have been around since the 1889 and are credited to William Gray, who desperately needed a phone while he was away from home but couldn't find one. Since then, one only has to look every few blocks to see the familiar blue pay telephone sign.

John Ford found one the other day when he received a page from a friend while

64 percent, or 2.4 million adults 18 and over, own a cell phone in the counties of Wayne, Macomb, Oakland, Livingston, Monroe, St. Clair, Lapeer, Sanilac and Washtenaw.

* Detroit also ranked No. 1 in 1998.

* Other high cell phone ownership rates were in the regions of Chicago, Baltimore, Charlotte, N.C., and Atlanta.

David Coates / The Detroit News

Calvin Bowman of Dayton, Ohio, uses a laptop computer to hook up to the Internet via pay phone at the airport.

driving through Detroit. Though he owns a cell phone, he still found a pay phone across the street from Belle Isle to call his friend and chat with him for several minutes. Why? Because it was cheaper than using his wireless.

"As long as it's on the way," Ford said, "it's no problem."

You can reach Kim Kozlowski at (313) 222-2024 or at kkozlowski@detnews.com.

LAW OFFICES
2101 L Street NW • Washington, DC 20037-1526
Tel (202) 785-9700 • Fax (202) 887-0689

Writer's Direct Dial: (202) 828-2236
A5691.0542

April 15, 2002

William F. Caton, Acting Secretary
Federal Communications Commission
The Portals
445 12 th Street, S.W., TW-A325
Washington, D.C. 20554

Re: Early Period (1992-96) Compensation: Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128; Colorado Payphone Association Petition for Reconsideration re Retroactive Adjustment of Intermediate Period Compensation

Dear Mr. Caton:

This letter amplifies the American Public Communications Council's ("APCC") earlier *ex parte* submission[1] showing that interexchange carriers ("IXCs") avoided millions of dollars in dial-around compensation payments to independent payphone service providers ("PSPs") between June 1, 1992 and November 6, 1996 ("Early Period") due to the Commission's erroneous determination that it lacked statutory authority to prescribe compensation for subscriber 800 calls.[2] In deciding what, if any, retroactive compensation adjustments are warranted by equitable considerations for the Intermediate Period (October 7, 1997 – April 21, 1999), the Commission must consider the revenue shortfall experienced by independent PSPs in the Early Period.[3] In the Early Period, as a result of the Commission's erroneous

[1] *See* letter from Robert F. Aldrich to Magalie Roman Salas, December 13, 2001 ("December 13, 2001 Ex Parte")(attached as Attachment 1 to this letter).

[2] *Florida Public Telecommunications Association, Inc.* v. FCC, 54 F.3d 857 (D.C. Cir. 1995)("*FPTA*"). Subscriber 800 calls are calls to an 800 number assigned to a particular subscriber. The subscriber pays the IXC that it preselects to carry the call.

[3] *See* Colorado Payphone Association's pending Petition for Reconsideration, filed April 21, 1999, seeking reconsideration of *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996,* Third Report and Order and Order on Reconsideration of the Second Report and

interpretation of Section 226(e)(2), IXCs were able to avoid payment for all subscriber 800 calls, the majority of dial around calls. *FPTA*. To award retroactive refunds to IXCs for the Intermediate Period despite their massive avoided payments in the Early Period would unjustly enrich IXCs, who benefited from subscriber 800 calls originating from payphones in the Early Period but who did not compensate independent PSPs for the cost of originating such calls. Moreover, failure of the Commission to consider the Early Period would unfairly penalize independent PSPs who have been significantly undercompensated when considering all time periods together.[4]

Based on conservative estimates of the amount of compensation that would have been due for subscriber 800 calls during the Early Period if the Commission had correctly interpreted Section 226(e)(2) of the Act, 47 U.S.C. § 226(e)(2), independent PSPs who were clients of APCC's payphone compensation clearinghouse were undercompensated for subscriber 800 calls by approximately $82 million in the Early Period. By contrast, if (despite APCC's showing that PSPs were undercompensated in the Intermediate Period as well) the Commission were to conclude that independent PSPs should retroactively refund compensation to IXCs for the Intermediate Period, APCC's independent PSP clients would owe IXCs a total of approximately $33 million.[5] Neither of these estimates includes an estimate of interest on under- and over-payments. As a group, IXCs have underpaid independent PSPs by some $49 million, at least, when the Early and Intermediate

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Order, 14 FCC Rcd 2545 (1999)("*Third Payphone Order*"), *aff'd*, *American Pub. Com. Council v. FCC*, 215 F.3d 51 (D.C. Cir. 2000).

[4] Independent PSPs have been undercompensated for dial-around calls in every time period under consideration in this proceeding, including the Intermediate Period. As APCC has explained in previous submissions, in the Intermediate Period independent PSPs failed to recover the cost of a marginal payphone even at the per call compensation rate of $.284 per call. *See, e.g.*, letter of March 26, 2001, from Albert H. Kramer to Dorothy Attwood ("March 26, 2001 Ex Parte). *See also* letter of April 15, 2002, to William F. Caton, Acting Secretary, FCC, from Albert H. Kramer and Robert F. Aldrich re Standard for Granting Retroactive True-ups.

[5] This calculation is based on the difference between the per call compensation rate of $.284 prescribed in the *Second Payphone Order* and the current rate of $.238. *See Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, Second Report and Order, 13 FCC Rcd 1778 (1997) ("*Second Payphone Order*"), *remanded, MCI Telecommunications Corp. v. FCC*, 143 F.3d 606 (D.C. Cir. 1998).

Periods are considered together.[6] Accordingly, as a matter of basic equity independent PSPs should not be required to pay refunds to IXCs for the Intermediate Period.

I. Background

While APCC is not requesting the Commission to order IXCs to pay additional compensation to compensate PSPs for the calls that were uncompensated during the Early Period, those uncompensated calls must be considered when deciding whether to order refunds for the Intermediate Period, and when deciding the amount of any refunds for the Intermediate Period.

Prior to 1992, independent PSPs only received revenue from coin payments for local calls and toll calls and from commissions paid by presubscribed operator service providers ("OSPs") for "0+" calls. Independent PSPs were not compensated for any dial-around calls. However, in the Telephone Operator Consumer Services Improvement Act of 1990 ("TOCSIA"), Congress directed the Commission to:

> . . . consider the need to prescribe compensation (other than advance payment by consumers) for owners of competitive public pay telephones for calls routed to providers of operator services that are other than the presubscribed provider of operator services for such telephones.

47 U.S.C. § 226(e)(2). In its 1991 order implementing Section 226, the Commission concluded that IXCs who are operator service providers ("OSPs") should pay compensation to independent PSPs for originating interstate access code calls.[7] *See Operator Service Access and Pay Telephone Compensation*, Report and Order and Further Notice of Proposed Rulemaking, 6 FCC Rcd 4736 (1991). The Commission, however, did not require IXCs/OSPs to pay any compensation to PSPs for the origination of subscriber 800 calls, even though these calls are also dial around calls and independent PSPs have no alternative means of recovering the cost of originating such calls. *Id.* at 4745–46. The Commission reasoned that it had no authority under TOCSIA to prescribe compensation for subscriber 800 calls. APCC sought court review of the Commission's determination and the Court concluded

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6 For the Interim Period, independent PSPs as a group were also undercompensated on balance. *See* Attachment 2, "Independent PSP Compensation 1992-1999."

7 The major IXCs, such as AT&T, MCI, and Sprint, were all operator service providers and were thus subject to the Section 226(e)(2) compensation provision.

that the compensation provision of Section 226(e)(2) of the Act clearly encompassed subscriber 800 calls. *FPTA*, 54 F.3d 857. Thus, independent PSPs were improperly denied compensation for subscriber 800 calls for a total of approximately 53 months, from June 1, 1992 through November 6, 1996.

In initiating Docket No. 96-128, the Commission found that "the rules adopted in this proceeding will address the *Florida Payphone* remand." *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, Notice of Proposed Rulemaking*, 11 FCC Rcd 6716, n. 42, ¶88 (1996). However, the retroactive aspect of the remand was never addressed. In the *First Payphone Order*, the Commission declined to apply Interim Compensation retroactively to the date of the *Notice of Proposed Rulemaking*, as APCC had proposed as a partial remedy for the compensation lost during the Early Period. *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, Report and Order*, 11 FCC Rcd 20541, ¶¶ 118, 126 (1996)("*First Payphone Order*"), *recon.* 11 FCC Rcd 21233 (1996)("*First Reconsideration Order*"), *vacated in part*, *Illinois Public Telecommunications Association v. FCC*, 117 F.3d 555 (D.C. Cir. 1997), *cert. denied*, 523 U.S. 1046 (1998). *See also* Comments of American Public Communications Council, July 1, 1996, at 39.

In summary, even though subscriber 800 calls were subject to compensation under TOCSIA, independent PSPs did not begin to receive compensation for such calls until November 7, 1996, when the compensation prescribed under Section 276(b)(1)(A) of the Act, 47 U.S.C. § 276(b)(1)(A), took effect.[8]

In order to estimate the total amount of compensation lost by independent PSPs and avoided by IXCs, the following discussion uses a very conservative

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[8] Section 226(e)(2) directed the Commission to "consider" requiring compensation for dial around calls, and thus arguably left it to the Commission's discretion whether to prescribe compensation for subscriber 800 calls. However, Section 276 of the Act has established that federal policy is for PSPs to be fairly compensated for every dial-around call, including subscriber 800 calls. This federal policy must guide the Commission's equitable analysis. Thus, in considering the consequences of the Commission's error in interpreting Section 226(e)(2) during the Early Period, for purposes of the Commission's equitable analysis of whether independent PSPs should pay IXCs a refund for the Intermediate Period, it is appropriate for the Commission to presume that independent PSPs would have been fairly compensated for subscriber 800 calls in the Early Period if the Commission had correctly interpreted Section 226(e)(2).

In order to estimate the total amount of compensation lost by independent PSPs and avoided by IXCs, the following discussion uses a very conservative approach to estimating what is, by any measure, a massive amount of unpaid compensation.

II. Independent PSPs Were Undercompensated by Roughly $80 Million, Without Even Taking Account of Interest, for Subscriber 800 Calls Between June 1992 and November 1996

APCC estimates that, if independent PSPs had been fairly compensated for subscriber 800 calls in the Early Period pursuant to Section 226(e)(2) of the Act, independent PSPs should have received approximately $82 million in additional compensation during the Early Period. *See* Attachment 3, "Estimate of Early Period Underpayment of Independent PSP Clients of APCC Services, Inc."

A. Average Compensable Call Volume

In order to determine the amount of compensation that IXCs should have paid independent PSPs in the Early Period, APCC begins by estimating the average volume of compensable access code and subscriber 800 calls that originated from payphones during that period. Because the end of the Early Period is also the beginning of the Interim Period, an estimate of the volume of compensable calls at the end of the Early Period can be developed from the average number of access code and subscriber 800 calls originating from payphones during the Interim Period. That number is 148 calls per payphone per month. *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, Fourth Order on Reconsideration and Order on Remand, FCC 02-22, released January 31, 2002, ¶ 12.

The average call volume of 148 calls per month in the Interim Period must be adjusted to reflect that Section 226, which governed compensation in the Early Period, applies only to *interstate* calls. It is reasonable to assume that at least half of the dial-around calls were interstate calls compensable under Section 226(e)(2) of TOCSIA. Attachment 4, "Notes on Estimate of Early Period Underpayment of Independent PSP Clients of APCC Services, Inc.," ¶ 1. Thus, a reasonable estimate of the average number of compensable dial-around calls – including both the access code calls for which independent PSPs *were* compensated and the subscriber 800 calls for which independent PSPs erroneously were *not* compensated – originating from payphones at the end of the Early Period (in 1996) is 74 calls per payphone per month.

The next step is to estimate the average volume of compensable calls at the beginning of the Early Period. It would be reasonable to apply the Early Period estimate of 74 calls as the monthly volume of interstate access code and subscriber 800 calls throughout the Early Period. However, it also could be argued that toll-free calling and the use of access codes were not as prevalent at the beginning of the Early Period as they were at the end of the period. In order to be conservative and to err on the side of underestimating the total volume of dial-around calls, APCC has developed an estimate of total interstate access code and subscriber 800 calls for the beginning of the Early Period, based on the number of interstate access code calls estimated by the FCC in its *1992 Compensation Order*, multiplied by the estimated average ratio of subscriber 800 calls to access code calls. *Policies and Rules Concerning Operator Service Access and Pay Telephone Compensation*, Second Report and Order, 7 FCC Rcd 3251 (1992) (the "*1992 Compensation Order*").

According to the *1992 Compensation Order*, the average number of interstate access code calls originating from payphones was 15 calls per payphone per month. *1992 Compensation Order* at 3257, ¶ 36. In APCC's December 13, 2001 Ex Parte, the APCC produced results of three surveys which demonstrated that the ratio of subscriber 800 calls to access code calls ranged from 2:1 to 3:1. *See* Attachment 1. Once again being conservative and assuming that the ratio of interstate subscriber 800 calls to interstate access code calls at the beginning of the Early Period was only 2:1, it is estimated that the average number of interstate subscriber 800 calls originating from payphones in 1992 was roughly 30. Therefore, it is reasonable to estimate that total interstate dial-around calling in the first quarter of the early period was approximately 45 calls per payphone per month. Attachment 4, ¶ 2.

With 45 calls per payphone per month in the first full quarter of the Early Period, and 74 calls per payphone per month at the end of the period, the next step is to estimate the average number of compensable calls during the intervening quarters. It is reasonable to plot the call volumes for the intervening quarters as increasing at a constant rate of growth from 45 to 74 calls per payphone per month. *Id.*, ¶ 3. The resulting estimated call volumes for each quarter, increasing at a constant growth rate of approximately 3% per quarter, are shown in Attachment 3. The median call volume for the period as a whole, estimated by this method, is about 57 calls per payphone per month.

B. Applicable Rate

It is then necessary to assign a per call rate for purposes of estimating total compensation for this period. One possible approach is to assign the same rate that the Commission assigned to access code calls. In the *1992 Compensation Order* the

Commission determined that a compensation rate of $.40 per access code call was reasonable. *1992 Compensation Order* at 3257, ¶¶ 40-41.

Another, more conservative, approach is to assign a per-call rate to subscriber 800 calls equal to the current per call compensation rate of $.238. This rate is designed to "ensure that each call at a marginal payphone location recovers the marginal cost of that call plus a proportionate share of the joint and common costs of providing the payphone." *Third Payphone Order*, 14 FCC Rcd at 2571 (1999).

Again erring on the side of the more conservative assumptions, APCC assigns the lower rate of $.238 per call as the rate that should have applied to the compensation of interstate subscriber 800 calls. APCC further assumes that interstate access code calls also would have been compensated at the $.238 rate, rather than the $.40 rate actually applied, if the Commission had prescribed compensation for all interstate dial-around calls during the Early Period. Attachment 4, ¶ 4.

C. Underpayment

Using the method described above, APCC has estimated the total monthly per-phone compensation that independent PSPs should have received in each quarter of the Early Period, which ranges from $10.71 at the beginning of the period to $17.61 at the end. *See* Attachment 3. To determine the monthly underpayment per phone, it is necessary to subtract from these amounts the actual prescribed rate, which for most of the Early Period was $6.00 per payphone per month.[9]

The underpayment for each quarter of the Early Period, calculated by this method, is shown on Attachment 3. The median underpayment of independent PSPs during the Early Period is approximately $7.50 per payphone per month. The total per-phone underpayment for the Early Period is about $408. The total

[9] Beginning in late 1994, AT&T and Sprint were granted waivers to switch from paying per-phone compensation to paying per-call compensation, at the rate of $.25 per call. APCC's payment records indicate that, as a result, the amounts collected by PSPs during the period when these waivers were in effect averaged less than the $6.00 per payphone per month originally prescribed by the Commission. To simplify the calculation, and again erring on the side of underestimating total undercompensation, APCC is not including this reduction in the total compensation, and is assuming that the $6.00 per month payment was collected throughout the Early Period. The result is to underestimate the amount of undercompensation.

amount by which APCC-represented independent PSPs were undercompensated in the Early Period, without even taking account of interest, is approximately $82 million. To this amount, interest must be added for the average seven-year period for which independent PSPs have been deprived of these funds.

III. The Unpaid Compensation for the Early Period Exceeds the Maximum Possible Refund for the Intermediate Period by a Factor of Two

The $82 million underpayment for the Early Period greatly exceeds any refund that independent could conceivably "owe" IXCs for the Intermediate Period. Accordingly, the equities dictate that independent PSPs not be forced to refund IXCs any compensation.

APCC has previously demonstrated that even without taking into account the compensation that IXCs should have paid independent PSPs for subscriber 800 calls during the Early Period, no refund is warranted for the Intermediate Period. *See* March 26, 2001 Ex Parte. Among other reasons why this is the case, even at the $.284 rate in effect during the Intermediate Period, independent PSPs did not recover their costs in the Intermediate Period. Based on actual compensation data, APCC showed that only about 69% of the compensation that the Commission found necessary to recover marginal payphone costs was already paid. Compensation was paid, APCC estimated, on average for only about 109 out of 142 monthly calls at a marginal payphone, and the average monthly payment for a marginal phone was only $27.55 instead of the $33.80 necessary to recover marginal payphone costs under the cost analysis adopted in the *Third Payphone Order*. If PSPs were required to refund $.046 per call, cost recovery would drop even lower, to $23.09 per month. *Id.* Therefore, independent PSPs should not be forced to incur further losses by refunding compensation to IXCs.

As shown below, however, even if the Commission disregards independent PSPs' inability to recover their costs during the Intermediate Period, the maximum amount of the refund to which IXCs would be entitled for the Intermediate Period is approximately $33 million. This "overpayment" is dwarfed by the $82 million that IXCs should have paid independent PSPs for subscriber 800 calls during the Early Period.[10]

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[10] This amount does not take into account interest that IXCs should pay independent PSPs to compensate independent PSPs' for their loss of the use of the money that should have been paid. Interest would be significant since the time period in question dates back six to ten years.

The amount of per phone compensation that APCC-represented independent PSPs would have to refund to IXCs for the Intermediate Period – assuming that independent PSPs must refund the difference between the $.284 and $.238 rates (or $.046) – can be estimated by multiplying APCC's total receipts from IXCs for that period – about $205 million – by .046/.284. The result is about $33.2 million. This is far less than the $82 million by which IXCs undercompensated APCC-represented independent PSPs in the Early Period. The addition of interest payments would widen the gap even more, as the Early Period is about four years earlier, on average, than the Intermediate Period.

The Commission's analysis of the equities of ordering independent PSPs to refund IXCs must be guided by Congress's directive in Section 276 of the Act that PSPs be fairly compensated for each and every call originating from their payphones. 47 U.S.C. § 276(b)(1)(A). As noted, independent PSPs have been grossly undercompensated for dial around calls in every compensation period, and thus should not be required to pay refunds to IXCs for any period. But even if the Commission were to find that independent PSPs were overcompensated for the Intermediate Period, the amount of such overcompensation must be offset by the amount of the total underpayments to independent PSPs during the Early Period. The total underpayments for that period are so much larger that it is difficult to imagine what equitable purpose could be served by requiring independent PSPs to pay refunds for the Intermediate Period.

Sincerely,

Albert H. Kramer
Robert F. Aldrich

ATTACHMENT 1 TO APCC EX PARTE LETTER OF APRIL 15, 2002 RE EARLY PERIOD (1992-1996) COMPENSATION:

APCC EX PARTE LETTER OF DECEMBER 13, 2001 RE THE RATIO OF SUBSCRIBER 800 CALLING TO ACCESS CODE CALLING